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Mr. Chairman, Mr. Davis and members of the Committee, I commend you for convening today's hearing and for the introduction of bipartisan legislation to enable competition in the biopharmaceutical marketplace. On behalf of the California Public Employees' Retirement System (CalPERS), I welcome the opportunity to testify about this issue of importance to our members, to our state and to our nation.

Let me begin by introducing myself and CalPERS. My name is Priya Mathur. I was elected by 400 thousand public sector employees to serve on the board of CalPERS to invest their $230 billion of retirement assets and to manage their multi-billion dollar health benefit program.

CalPERS' health program covers 1.2 million active and retired public employees and their families. Notably, CalPERS is the third largest purchaser of employee health benefits in the nation – behind only the federal government and General Motors – and is the largest purchaser of health benefits in California.

This year, CalPERS will spend almost $5 billion on health benefits – or $13.4 million per day. Of that amount, CalPERS -- for the first time -- will spend over $1 billion on our members' prescription drugs.

At a time when our state is trying to expand health insurance coverage to more Californians, slow the rate of growth in health care costs, and make our health care system more efficient, the high cost of biopharmaceutical products presents an unsustainable challenge to CalPERS and our entire health care system.

CalPERS has long been a leader in implementing cost-effective health care programs. Among many strategies, we have instituted innovative prescription drug benefit cost-sharing designs to maximize the use of generics and therapeutically appropriate brand drugs.

CalPERS has actually achieved tremendous success in controlling prescription drug costs through the use of generics. This has been possible thanks to the Chairman, whose efforts two decades ago led to the enactment of the "Drug Price Competition and Patent Term Restoration Act of 1984," what we call Waxman-Hatch.

As you well know, Waxman-Hatch gave FDA the authority to provide an abbreviated approval process for those products deemed equivalent to an innovator product after patent expiration. Without generic substitution, we estimate that our costs would be about 60 percent higher. Generics save our enrollees and our state taxpayers hundreds of millions of dollars annually.

In spite of all of our cost-containment efforts, CalPERS has seen an average annual increase of about 13.5 percent for our HMOs and PPOs since 2002.

Mr. Chairman, CalPERS' spending for biotech products is distressingly substantial and rising at a rate that is significantly higher than traditional pharmaceuticals. Because of the complex

delivery requirements of many biopharmaceuticals, it is exceedingly difficult to break out a stand-alone spending line for these products. However, we believe that our spending on so-called "specialty drugs" is a good proxy because biotech products make up the great majority of spending in the specialty drug category.

Total spending for specialty drugs was $83.7 million in 2006, a one year increase of 16.9 percent – compared to a 5.4 percent increase in traditional prescription drugs. On average, spending for biotech products was at least $55 per day – compared to traditional drugs at only $2 per day.

CalPERS supports a competitive health care marketplace that leads to innovation and life-saving medicines. However, competition does not exist today, because FDA asserts that it does not have the authority to approve biogeneric products. As a result, today's biotech companies are benefiting long after patents expire and are profiting at the expense of all Americans.

CalPERS supports giving the FDA explicit authority to approve biogeneric products that are safe. Without the ability to access less expensive comparable and interchangeable biopharmaceuticals, CalPERS ultimately will be forced to raise prescription drug co-pays or raise premiums, shifting the increasingly unaffordable costs onto the individuals who can least afford them.

Mr. Chairman, before I conclude, I need to address one important issue. The opponents of this legislation – and as you point out, they are limited to the biotech industry – are claiming that those who support your legislation are ignoring the safety threat of bringing biogenerics to the marketplace.

I want to be perfectly clear – the safety and health of our members comes first in any decision we make about any healthcare policy. Therefore, we strongly support providing FDA with full discretion to make the ultimate decision about whether and when any prescription drug product – be it brand or generic – comes to market. Your legislation does just that.

Mr. Chairman, CalPERS is proud to add our support to the growing and diverse list of stakeholders who support your legislation to open the door to biogeneric competition. We stand ready to help you complete the work you started in Waxman-Hatch by making biogenerics a safe and affordable alternative for consumers.

Thank you for giving us this opportunity. I'd be happy to take any questions that you or other members of the Committee may have.